SHOWBIZ PIZZA TIME, INC.

1989
Annual
Report

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FINANCIAL HIGHLIGHTS

(Thousands, except per share data)

	1989	1988
Revenues	$167,443	$151,364
Depreciation and amortization	11,327	9,712
Operating income	6,115	2,274
Income before extraordinary item	2,454	303
Extraordinary item		(528)
Net income (loss)	$ 2,454	$ (225)
Earnings per share:		
Primary:		
Income (loss) before extraordinary item	$ .39	$ (.01)
Net income (loss)	.39	(.13)
Weighted average number of shares outstanding	5,406	4,260
Fully Diluted:		
Income (loss) before extraordinary item	$ .37	$ (.01)
Net income (loss)	.37	(.13)
Weighted average number of shares outstanding	5,649	4,260
Other Information:		
ShowBiz and Chuck E. Cheese's Restaurants		
Increase in comparable store sales	8.3%	6.9%
Number of restaurants at year-end:		
Company operated	130	128
Franchise	126	130
Total restaurants	256	258
Monterey's Tex-Mex Cafe Restaurants		
Number of restaurants at year-end	26	58

CHAIRMAN'S LETTER

To Our Stockholders:

1989 was a year of momentous transition and continued success for the Company, our stockholders, and employees. It was also a year in which the long-term commitment and dedication of the entire ShowBiz management team set the stage for the Company's exciting entry into the 1990's.

Following the spin-off of the Company by Integra — a Hotel and Restaurant Company to its stockholders in December 1988, the Company's common stock began trading on the NASDAQ National Market System in January 1989. We have been warmly received by NASDAQ market makers, securities analysts and you, our stockholders, who have benefited from the liquidity and opportunity for capital appreciation afforded by public trading of ShowBiz stock.

ShowBiz and Chuck E. Cheese's

Four years ago, management committed itself to our basic mission: "Increased revenue through customer satisfaction, employee development, and aggressive marketing, resulting in increased shareholder value." Our continued focus on this mission yielded outstanding results in 1989. In the fourth quarter of 1989, comparable store sales increased for the 16th consecutive quarter in our ShowBiz/Chuck E. Cheese's restaurants. In a year in which most restaurant companies experienced negligible increases in comparable store sales, our ShowBiz/Chuck E. Cheese's locations generated an increase of 8.3% over their strong 1988 performance.

Richard M. Frank
Chairman and Chief Executive Officer

From an earnings standpoint, operating income from our ShowBiz/Chuck E. Cheese's restaurants for 1989 more than doubled as compared to 1988, from $5.9 million to $13.6 million. Cash flow from 1989 operations exceeded $20 million as compared to approximately $13 million in 1988.

As the Company enjoyed this unparalleled success, it renewed its commitment to reinvest its capital into the business. During 1989, we remodeled 17 ShowBiz and Chuck E. Cheese's restaurants, purchased four restaurants from former franchisees or partners of the company, and opened one new location. This newly invested capital has yielded returns in excess of our internally established investment criteria of a 30% cash-on-cash return.

Monterey's Tex-Mex Cafe

During 1989 we also faced the difficult challenge of repositioning our Monterey House concept and insuring that newly invested capital was expended only against those properties where sufficient returns could be projected. During the third quarter of 1989, the Company determined that shareholder value would best be enhanced by our decision to

close 26 of the 52 Monterey House locations which we then operated. Although the $4.5 million charge resulting from the closing of these properties significantly impacted the net income of the Company, the early success of this strategy has given us reason for optimism that our newly repositioned "Monterey's Tex-Mex Cafe" may now enjoy an exciting and rewarding future. The remaining locations in Texas and Oklahoma have been remodeled, and an entirely new menu has been implemented. Thus far in 1990, trends in comparable store sales for Monterey's have exceeded our expectations.

1990: A Year of Opportunity

We enter 1990 on a four year wave of success which no one could have reasonably predicted in 1985. Despite our accomplishments, we believe that the opportunities for increased sales and profitability over the coming years remain great, and that true success will be measured over the longer term.

We have made extensive plans to utilize the significant cash flow generated from our ShowBiz/Chuck E. Cheese's restaurants. We plan to build eight new restaurants as we accelerate our remodeling program and refurbish 30 existing locations. Additionally, we plan to reduce our long-term debt as well as pursue the acquisition of restaurants from our franchisees where our investment criteria can be met.

Our Operating Objective: Every Guest Leaves Happy

Our ShowBiz/Chuck E. Cheese's system is currently comprised of 133 Company owned or operated units and 126 franchised locations. To date, we have locations in 44 states, as well as three foreign countries.

In order to continue our sales momentum both we and our franchisees must continue to offer our guests those fundamental qualities sought in any restaurant/entertainment experience: value through consistent quality and excellent service — all for a reasonable price.

We stand committed to insure that each guest's experience in each of our locations is what we refer to as "premier." The continued satisfaction of our guests, reflected in increased sales, is the ultimate measure of our performance and remains the key to increased profitability and enhanced shareholder value.

I would like to personally express my gratitude to each and every guest, our dedicated employees, our trusted franchisees, our loyal suppliers, and you, our stockholders. Without your commitment the success of the past and opportunity for the future would be greatly diminished.

I look forward, with you, to an exciting and prosperous 1990.

Sincerely,

Richard M. Frank

Richard M. Frank
Chairman and
Chief Executive Officer

EVERY GUEST LEAVES HAPPY!

This one simple phrase sums up our primary objective at every restaurant we operate. Our ultimate success is measured by sales and profits, and after all, it's our guests who visit our centers each and every day who ultimately determine our future.

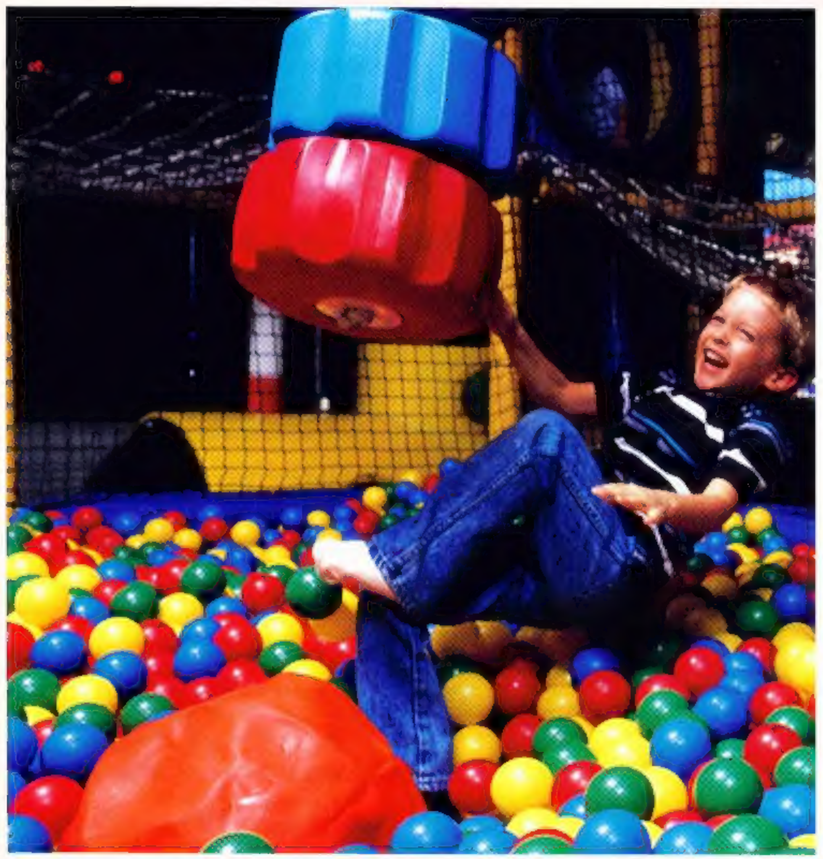
A helping hand and a smiling face stay with our guests long after their visit.

But simple as this goal is to state, it is considerably more difficult to achieve. It takes the combined efforts of over 7,200 company employees, plus a similar number in our franchised restaurants, working as a team to assure that every guest really does leave happy! When our employees and franchisees succeed, we as a company succeed.

The key question then becomes, what makes our guests happy? We think the answer is the same as for any restaurant/entertainment facility. Guests are looking for basic value, quality, service and consistency.

Value

Our guests think value means more than reasonable prices. They tell us over and over again, "We'll come back because *you're* worth it." We listen to our guests because *they're* worth it. We think value in our guests' eyes goes hand in hand with quality. When the ingredients are fresh and wholesome; when the food is presented attractively and hot; when there are games, rides and entertainment that kids just seem to love — what could be more valuable to our guests?



Kids "have a ball" with this ever-popular ShowBiz attraction.

Fortunately, value to our guests can also translate into profitability for the company. While providing what we think is a strong value for our guests, our operating margins have improved over the past four years. We're constantly evaluating new ways to deliver true value in our menu items and entertainment while reducing our food and equipment costs, which ultimately allows us to be more

than competitive with restaurants *and* entertainment centers.

Quality

From our menu items to our facilities, we strive to meet our guests' expectations for a quality experience.

We've not only expanded our menu, but we've improved it as well. We use only the freshest ingredients in our pizza, sandwiches, salad bar and other menu items. And we're constantly researching new products and ingredients to make sure that our guests not only leave well satisfied, but ready to return.

Of course we're more than a restaurant. We're the place "Where

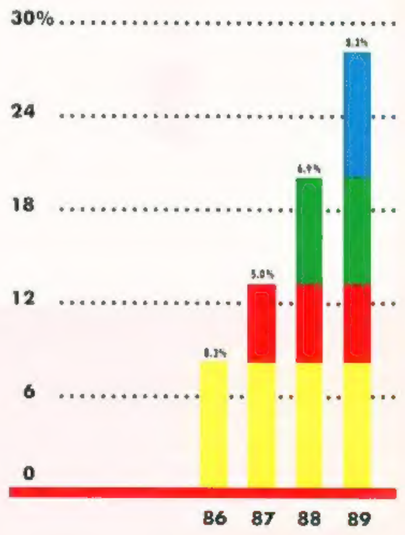
We use only the freshest ingredients in all our food to make sure that our guests not only leave well satisfied, but ready to return.

A Kid Can Be A Kid®." Along with "kiddie rides" that are proven favorites, we've added skill games that build a child's dexterity and provide a fun learning opportunity. Even Mom and Dad participate in what is truly entertainment for the whole family. And, we're only satisfied when every game and ride in every restaurant is clean, well maintained and fully operational.

Our robotic animation show provides our guests with high quality musical productions which we update frequently. This unique entertainment allows our guests to listen and laugh — at the same time they're enjoying our pizza, salad bar and other fine menu selections.

A quality guest experience can only result from the efforts of quality people, and here quality begins at the top. Our executive

ShowBiz and Chuck E. Cheese's
Comparable Store Sales Growth



officers average 15 years of experience with such industry leaders as S&A Restaurant Corporation, Chili's, Church's Fried Chicken, El Chico and Jack-in-the Box.

Along with "kiddie rides" that are proven favorites, we've added skill games that build a child's dexterity and provide a fun learning opportunity.

These executives, along with the members of our team at each individual restaurant, view serving our guests as their highest priority. We believe that our greatest asset is our people — from our food servers to our managers. We think they're quality all the way.

Service

We think our guests have a right to expect and demand the best service when they're with us. So we spend hours training our people to serve our guests as if they were entertaining family — which is the way we like to think of those who come to visit us. From efficient order taking to the happiest of birthdays, we strive to provide our guests with excellent service on every visit. We also know that excellence in service doesn't just happen — it's founded upon thorough training and development for each of our employees.

To further meet our guests' expectations, our entire service program has been revamped to provide our employees more opportunities to interact with our guests while minimizing headaches for them. We know that a helping hand and a friendly face can stay with our guests long after their visit.

To simplify and improve the dining experience for the family, we now deliver most of our menu items to the table. Self-service beverage and salad bar areas have been implemented throughout the system to provide our guests with an easier and more personalized experience. Overall, we strive to give the customer fast, friendly, helpful service that eases the "hassle" for the entire family. At the same time, we've managed to offer this improved service to our guests without significantly increasing labor costs.

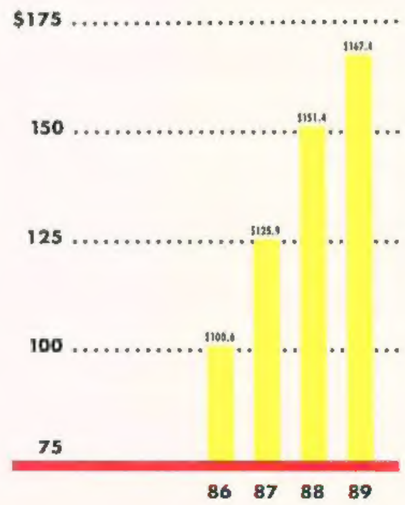
We're always looking for new ways to entertain our guests. Our robotic animation show provides our guests with high quality musical productions.

Consistency

"What good are we if we're not good every time?" We ask ourselves that question, because we know our guests demand it.

Every floor must be clean, every attraction operating, and every birthday party successful every day of the week. Orders must be delivered to the table hot and flavorful each time or we're not happy.

Consolidated Revenues
(millions)



These are very basic ideals, yet they're at the heart of our success. When we deliver true value, quality and service each time our guests are with us, we know they'll be back and they'll leave happy every time. And when guests are happy, success is the only possible outcome.

Monterey's Tex-Mex Cafe

Our 26 Monterey's Tex-Mex Cafe restaurants offer a wide variety of "Tex-Mex" favorites in a casual, full service dining atmosphere. We've brought our basic belief in value, quality, service and consistency to Monterey's, and we think our guests are paying attention.

Newly remodeled buildings, fresh ingredients, fast and friendly service, and prices that won't make

A new look, fresh ingredients, fast and friendly service and great prices are in our game plan for Monterey's.

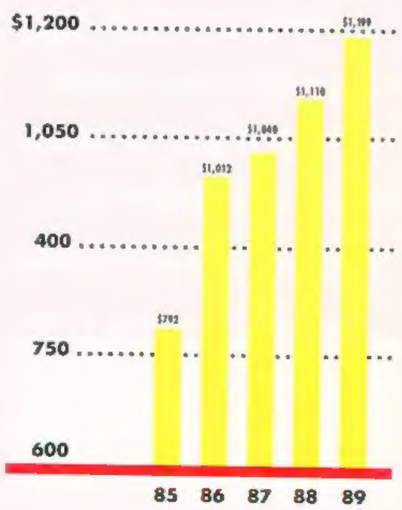
our customers strangers are at the heart of our game plan for Monterey's. We feel our Monterey's Tex-Mex Cafes will hit their stride in 1990, and have the potential to become a big part of our business in the years to come.

Looking to the Future

We're proud of our success over the past four years, but we have plenty of opportunities ahead. We'll be building new restaurants and improving those we already operate. And we'll be continuing to insist that our guests' satisfaction be our number one priority.

We'll always be looking for ways to better entertain our guests. We will never lose sight of how important it is to make each of our guests happy enough to say "It's a great day to be at ShowBiz." Because when our guests are happy, strong financial performance becomes the ultimate reward.

ShowBiz and Chuck E. Cheese's
Average Sales of Company Operated Restaurants
(thousands)



SELECTED FINANCIAL DATA

(Thousands, except per share data)

	1989	1988	1987	1986	1985
Operating results(1):					
Revenues and joint venture income	$167,443	$151,364	$125,857	$100,603	$114,702
Costs and expenses	161,328	149,090	119,717	106,632	167,733
Operating income (loss)	6,115	2,274	6,140	(6,029)	(53,031)
Other income (expenses)	(3,298)	(1,830)	(310)	414	(9,012)
Income (loss) before income taxes and extraordinary items	2,817	444	5,830	(5,615)	(62,043)
Income taxes	363	141	429		
Income (loss) before extraordinary items	2,454	303	5,401	(5,615)	(62,043)
Extraordinary items		(528)		5,563	
Net income (loss)	$ 2,454	$ (225)	$ 5,401	$ (52)	$ (62,043)
Per share(2):					
Primary:					
Income (loss) before extraordinary items	$ .39	$ (.01)	$ 1.21	$ (2.28)	$ (102.64)
Net income (loss)	.39	(.13)	1.21	(.21)	(102.64)
Weighted average number of shares outstanding	5,406	4,260	4,260	2,687	608
Fully diluted:					
Income (loss) before extraordinary items	$ .37	$ (.01)	$ 1.21	$ (2.28)	$ (102.64)
Net income (loss)	.37	(.13)	1.21	(.21)	(102.64)
Weighted average number of shares outstanding	5,649	4,260	4,260	2,687	608
Balance sheet statistics:					
Total assets	$ 91,341	$ 92,489	$ 92,597	$ 76,299	$ 83,681
Shareholders' equity (deficiency)	35,636	33,315	30,304	25,151	(24,602)
Long-term obligations (including redeemable preferred stock)	36,731	40,868	48,631	38,389	55,179

(1) References to 1989, 1988, 1987, 1986 and 1985 are for fiscal years ended December 29, 1989, December 30, 1988, January 1, 1988, January 2, 1987 and December 27, 1985, respectively. 1986 was 53 weeks in length while all other periods were 52 weeks in length. During 1989, the Company retroactively applied Statement of Financial Accounting Standards No. 96. Certain reclassifications have been made to conform to the fiscal year 1989 presentation. See Notes to Consolidated Financial Statements elsewhere herein.

(2) Per share information has been adjusted to give effect to a one-for-ten reverse split of the Company's Common Stock on October 19, 1988. No dividends per common share were paid in any of the years presented.

QUARTERLY FINANCIAL INFORMATION

(Thousands, except per share data)

	Revenues	Operating Income (Loss)	Net Income (Loss)	Primary Net Income (Loss) Per Share	Stock Market Data High	Stock Market Data Low
1989						
1st Quarter	$ 44,351	$ 3,160	$ 2,540	$ 0.49	6⅞	5
2nd Quarter	41,721	1,998	1,239	0.21	11½	6⅛
3rd Quarter(1)	44,072	(597)	(1,808)	(0.42)	12¼	10¼
4th Quarter	37,299	1,554	483	0.07	17	10½
	$167,443	$ 6,115	$ 2,454	$ .39	17	5
1988						
1st Quarter	$ 38,742	$ 1,774	$ 1,461	$ 0.33	NM	NM
2nd Quarter	36,713	217	(171)	(.06)	NM	NM
3rd Quarter	39,878	1,582	895	0.19	NM	NM
4th Quarter(2)	36,031	(1,299)	(2,410)	(.59)	NM	NM
	$151,364	$ 2,274	$ (225)	$ (.13)	NM	NM

NM — There was no market for the Company's stock before January 3, 1989.
(1) Includes a charge to earnings of $4,532,000 for the closing of Monterey House restaurants.
(2) Includes an extraordinary charge of $528,000 resulting from the settlement of litigation.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

1989 Compared to 1988

Revenues for fiscal 1989 increased by 10.6% to $167.4 million from $151.4 million in 1988. Revenue generated by the Company's ShowBiz and Chuck E. Cheese's restaurants increased by 17.6% to $150.0 million in 1989 from $127.7 million in 1988, due primarily to an 8.3% increase in sales from the Company's ShowBiz and Chuck E. Cheese's restaurants which were open during all of 1989 and 1988 ("comparable store sales"). Revenues from the Company's Monterey's Tex-Mex Cafe (formerly Monterey House) restaurants declined to $17.4 million in 1989 from $23.7 million in 1988, primarily as a result of the closing of 32 Monterey House restaurants during 1989.

Operating income increased to $6.1 million in 1989 from $2.3 million in 1988, due primarily to the increase in comparable store sales from the Company's ShowBiz and Chuck E. Cheese's restaurants and improved operating margins. Operating income in 1989 was significantly reduced by a $4.6 million loss related to the closing of 32 Monterey House restaurants during 1989. Excluding the effect on operating income attributable to the closing of Monterey House restaurants, operating income would have increased to $10.7 million in 1989.

In June 1989, the Company purchased property and equipment interests related to 53 ShowBiz restaurants which it had formerly leased in a sale/leaseback transaction. As a result thereof, the Company incurred an increased depreciation expense of approximately $1.2 million, decreased rental expense of approximately $2.0 million and decreased interest income of $1.3 million in 1989. Although the Company's income before income taxes and extraordinary item was reduced by approximately $500,000 as a result of this purchase, the Company's cash flow from operations was not materially affected.

A summary of the results of operations of the Company as a percentage of revenue and joint venture income for the last three fiscal years is shown below.

	1989	1988	1987
Revenue and joint venture income	100.0%	100.0%	100.0%
Costs and expenses:			
Costs of sales	50.9%	52.4%	50.5%
Selling, general and administrative	17.4%	18.9%	17.9%
Depreciation and amortization	6.8%	6.4%	6.9%
Provision for asset write-offs and loss on restaurant closings	2.7%	.3%	(.7%)
Other operating expenses	18.5%	20.5%	20.5%
	96.3%	98.5%	95.1%
Operating income	3.7%	1.5%	4.9%

ShowBiz and Chuck E. Cheese's Restaurants

Revenues

The 17.6% increase in revenues from the Company's ShowBiz and Chuck E. Cheese's restaurants in 1989 over 1988 resulted primarily from a 8.3% increase in comparable store sales over 1988 levels, the Company's acquisition of four restaurants from franchisees or former partners of the Company and the opening of one new restaurant. The Company believes that price increases were responsible for approximately one-twelfth of the increase in comparable store sales.

Other factors which contributed to the increase in revenues were the remodeling of 17 restaurants in 1989 and the continuing success of the Company's marketing campaign, menu expansion and new entertainment attractions.

Costs and Expenses

Selling, general and administrative expenses declined significantly as a percentage of revenues to 17.4% in 1989 from 18.8% in 1988 due primarily to a decrease in corporate administrative expenses which resulted from the Company's separation of its operations from Integra - A Hotel and Restaurant Company in 1989 and increased sales which did not require a corresponding increase in expense.

Other operating expenses also declined significantly as a percentage of revenue to 18.3% in 1989 from 21.3% in 1988. The decline was primarily attributable to decreased rental expense and increased sales as discussed above.

Operating Income

As a result of the changes in revenues and expenses discussed above, operating income increased by 129% to $13.6 million in 1989 from $5.9 million in 1988.

Monterey's Tex-Mex Cafe Restaurants

Revenues

Revenues declined by 26.8% to $17.4 million in 1989 from $23.7 million in 1988 primarily due to the closure of 32 restaurants between the periods. A decline of 10.7% in comparable period sales from the 26 restaurants which were operated during all of 1989 and 1988 also contributed to the decline in revenues.

Cost and Expenses

Selling, general and administrative expenses as a percentage of revenues declined to 17.3% in 1989 from 19.6% in 1988 primarily due to reductions in corporate administrative expenses associated with the closing of 32 restaurants and a $750,000 reduction in advertising expenditures between the two periods. Depreciation and amortization expenses as a percentage of sales increased to 8.4% in 1989 from 6.1% in 1988 due primarily to the decline in revenues.

Provision for asset write-offs and loss on restaurant closings increased to $4.6 million in 1989 from $450,000 in 1988 as a result of the closing of 32 Monterey House restaurants during 1989.

Other operating expenses declined to $3.5 million from $3.9 million but increased as a percentage of sales to 19.9% in 1989 from 16.2% in 1988. This increase was due primarily to the decline in revenues.

Operating Loss

Operating loss increased to $7.5 million in 1989 from $3.6 million in 1988 due primarily to a $4.6 million loss recorded in 1989 as a result of restaurant closings. Excluding the effect on operating income attributable to the closing of Monterey House restaurants as discussed above, operating loss would have decreased to $2.9 million in 1989.

Consolidated Income

Other expenses increased to $3.3 million in 1989 from $1.8 million in 1988 due primarily to a $1.3 million decrease in interest income attributable to the Company's June 1989 asset purchase, discussed above, and the increase in interest expense resulting from the Company's bank term loan and floating rate subordinated bonds between the two periods.

1988 net income was reduced by an extraordinary charge of $528,000 attributable to settlement of litigation. A 26.9% increase in weighted average shares outstanding on a primary basis occurred between the two periods primarily as a result of the recognition in 1989 of common stock equivalents related to outstanding warrants to purchase approximately 1.3 million shares of common stock issued in conjunction with the Company's December 1988 subscription rights offering.

As a result of the changes in revenues, expenses and other matters discussed above, including a $4.6 million loss recorded in 1989 attributable to the closing of 32 Monterey House restaurants, the Company generated net income of $2.5 million in 1989 as compared to a net loss of $225,000 in 1988.

1988 Compared to 1987

Revenues increased in 1988 to $151.4 million from $125.9 million in 1987. Approximately $13.8 million of this increase resulted from the acquisition of the Monterey House restaurants, the revenues of which were included for the last five months of 1987 and for the entire year in 1988. Substantially all of the remaining increase resulted from increased per restaurant revenues of the Company's ShowBiz and Chuck E. Cheese's restaurants and, to a lesser extent, the addition of seven restaurants between the two periods.

Operating income declined to $2.3 million in 1988 from $6.1 million in 1987, due primarily to a $3.1 million increase in operating loss incurred by Monterey House between the periods. In 1987, the Company reduced reserves for losses established in prior years by $922,000 while in 1988 it established reserves of approximately $450,000 related to the closing of Monterey House restaurants in early 1989.

ShowBiz and Chuck E. Cheese's Restaurants

Revenues

The increase in revenues and joint venture income for the Company's ShowBiz and Chuck E. Cheese's restaurants to $127.7 million in 1988 from $116.0 million in 1987 was attributable to a 6.9% increase in comparable store sales and the addition of seven new restaurants between the two periods.

The increase in comparable store sales was attributable to the remodeling of 14 restaurants, continued improvements in marketing campaigns and the success of improved and new entertainment attractions implemented between the two periods.

Cost and Expenses

Depreciation and amortization expense as a percentage of sales decreased to 6.5% in 1988 from 7.1% in 1987, due primarily to the increase in revenues discussed above.

The increase in total costs and expenses as a percentage of sales to 95.4% in 1988 from 94.3% in 1987 was primarily attributable to a $922,000 reduction of reserves established in prior years recognized in 1987. No such reserves were reduced in 1988.

Operating Income

As a result of the changes in revenues and expenses as well as the reduction of reserves discussed above, operating income declined to $5.9 million in 1988 from $6.6 million in 1987.

Monterey House Restaurants

Revenues

Revenues for the Company's Monterey House restaurants increased from $9.9 million for the last five months of 1987 to $23.7 million for 1988, due primarily to the operation of such restaurants for the entire year during 1988.

Costs and Expenses

Cost of sales as a percentage of revenue declined to 71.5% in 1988 from 76.0% in 1987 due primarily to the reduction of food costs resulting from the implementation of centralized food purchasing through a new food distribution company in early 1988.

Selling, general and administrative expense as a percentage of sales increased to 19.6% in 1988 from 10.8% in 1987 while significant increases also occurred in depreciation and amortization expense and other operating expense as a percentage of sales between the two periods. These increases were primarily due to the cost of operational changes (including changes in food product suppliers, substantial changes in restaurant personnel, new menu research and development, and relocation of restaurant accounting functions) and certain remedial expenditures (related primarily to tableware replacements, maintenance on buildings and equipment, and a substantial marketing effort) that were initiated in October 1987 and continued throughout 1988. A provision for asset write-offs in the amount of $450,000 was also incurred in 1988, related to the Company's plans to close restaurants in early 1989.

Operating Loss

As a result of the changes in revenues and expenses discussed above, operating loss increased to $3.6 million in 1988 from $506,000 in 1987.

Consolidated Income

Other expenses increased to $1.8 million in 1988 from $310,000 in 1987, due primarily to an increase of approximately $600,000 in interest expense related to the Company's bank term loan and subordinated bonds issued in 1988. Expenses related to a property exchange and settlement of litigation in 1988 also contributed to this increased expense.

As a result of the changes in revenue and expenses discussed above as well as the impact of a $528,000 extraordinary charge incurred in 1988 related to the settlement of litigation arising from the Company's 1986 restructuring plan, a net loss of $225,000 was incurred in 1988 as compared to net income of $5.4 million in 1987.

Inflation

The Company's costs of operations, including labor, supplies, utilities, financing and rental costs, are significantly affected by inflationary factors. The Company pays most of

its part-time employees rates that are related to federal and state mandated minimum wage requirements. The Company expects that it will be able to substantially offset increased costs due to inflation and increases in minimum wage requirements through higher prices to its customers and operational changes.

Financial Condition, Liquidity and Capital Resources

The ratio of the Company's current assets to current liabilities declined to .39 as of December 29, 1989 from .49 on December 30, 1988, due primarily to a reduction in the current portion of notes receivable related to the Company's repurchase of property interests in 53 ShowBiz and Chuck E. Cheese's restaurants in June 1989. The Company believes that cash flow from operations is adequate to meet working capital requirements.

Cash flow from operations, excluding changes in working capital, increased to $18.9 million in 1989 from $10.5 million in 1988. The Company's primary requirements for cash relate to planned capital expenditures and debt service.

The Company plans to make capital expenditures of approximately $18 million to build eight new ShowBiz and Chuck E. Cheese's restaurants and remodel 30 of such existing restaurants in 1990. The Company believes that the completion of the remodeling of the Monterey's Tex-Mex Cafe restaurants in 1989 will improve the Company's cash flow and permit the Company to concentrate its capital expenditures on ShowBiz and Chuck E. Cheese's restaurants in 1990 and 1991.

The Company is presently required to make principal reductions on long term debt of $3.3 million in 1990. The Company prepaid $2 million of long term debt in March 1990 and anticipates that additional prepayments of $2 to $4 million will be made during the current year.

In March 1990, the Company reached a preliminary agreement with The First National Bank of Boston regarding the amendment of its secured term loan agreement, with an outstanding principal balance of $5.9 million, to a $10 million revolving loan agreement. The consummation of the revolving loan agreement will permit the Company to apply its available cash against outstanding debt and hereafter draw against the revolving loan only as necessary in order to augment cash flow from operations and meet its capital expenditure requirements. The Company believes that the implementation of the revolving loan agreement, which is anticipated in April 1990, will provide the Company with greater flexibility to meet its cash requirements with reduced net interest cost. The maximum outstanding loan balance available under the revolving loan agreement declines to $7.5 million and $5.0 million in 1991 and 1992, respectively. The Company is also required to comply with certain financial ratio tests and capital expenditure limitations during the term of the agreement, which will expire in April 1993.

The Company expects that it can satisfy its debt service and capital expenditure requirements from funds generated from operations. In the event that additional capital is required, the Company believes that the proposed $10 million revolving loan agreement and other sources of capital, which the Company believes will be available, will be sufficient to meet such requirements.

The Company believes it will realize substantial benefit from future utilization of net operating loss carryforwards to reduce federal income tax liability. Although the use of such carryforwards could, under certain circumstances, be limited, the Company is presently unaware of the occurrence of any event which would result in the imposition of such limitation. The Company has adopted an amendment to its Restated Articles of Incorporation which is intended to prevent changes in ownership of its Common Stock that would cause such limitation. The Company believes that in addition to the $36 million of loss carryforwards attributable to prior losses of the Company, carryforwards of up to $92 million attributable to the Company's acquisition of Pizza Time Theatre, Inc. will be available for use against future earnings. There can be no assurance however, that these carryforwards will be available to such extent.

SHOWBIZ PIZZA TIME, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

DECEMBER 29, 1989 AND DECEMBER 30, 1988

(Thousands, except share data)

ASSETS

	December 29, 1989	December 30, 1988
Current assets:		
Cash and cash equivalents	$ 2,704	$ 1,977
Accounts receivable, including receivable from related party of $400 at both dates	1,454	1,591
Current portion of notes receivable, including receivables from related party of $24 and $20, respectively	321	2,212
Inventories	1,480	1,514
Prepaid expenses	1,342	1,673
Total current assets	7,301	8,967
Investments, including investment in a related party of $155 at both dates	266	1,485
Property and equipment	72,394	47,245
Other assets:		
Notes receivable, less current portion, including receivables from related party of $662 and $695, respectively	2,341	26,439
Deferred charges, less amortization	5,803	6,918
Other	3,236	1,435
	11,380	34,792
	$ 91,341	$ 92,489

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Current portion of long-term debt and other long-term liabilities, including payable to related party of $1,000 at both dates	$ 3,289	$ 2,986
Accounts payable and accrued liabilities, including payable to related party of $496 in 1989	15,225	15,145
Total current liabilities	18,514	18,131
Long-term debt, including payable to related parties of $17,761 and $19,180, respectively, less current portion	33,857	37,902
Deferred gains	460	175
Other liabilities	1,488	1,683
Commitments and contingencies		
Redeemable preferred stock, $60 par value, redeemable for $2,976 in 2005	1,386	1,283
Shareholders' equity:		
Common stock, $.10 par; authorized 10,000,000; 4,558,910 and 4,259,984 shares issued, respectively	456	426
Capital in excess of par value	127,899	127,720
Deficit	(92,651)	(94,764)
Less 12,068 and 11,986 treasury shares, respectively, at cost	(68)	(67)
	35,636	33,315
	$ 91,341	$ 92,489

See notes to consolidated financial statements.

SHOWBIZ PIZZA TIME, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 29, 1989,
DECEMBER 30, 1988 AND JANUARY 1, 1988

(Thousands, except per share data)

	1989	1988	1987
Food and beverage revenues	$123,720	$114,803	$ 93,123
Games and merchandise revenues	40,417	33,118	28,703
Franchise fees and royalties	3,338	3,143	2,968
Joint venture income (loss)	(32)	300	1,063
	167,443	151,364	125,857
Costs and expenses:			
Costs of sales	85,328	79,278	63,610
Selling, general and administrative expenses, including related party expense of $1,660, $4,875 and $5,565, respectively	29,144	28,635	22,572
Depreciation and amortization	11,327	9,712	8,718
Increase (decrease) in provision for asset write-offs and loss on restaurant closings	4,548	483	(922)
Other operating expenses	30,981	30,982	25,739
	161,328	149,090	119,717
Operating income	6,115	2,274	6,140
Other income (expenses):			
Property transactions	69	(244)	118
Interest income, including related party income of $106, $108, and $116, respectively	2,015	3,103	3,117
Interest expense, including related party expense of $2,132, $2,263, and $2,646, respectively	(5,174)	(4,427)	(3,817)
Other	(208)	(262)	272
	(3,298)	(1,830)	(310)
Income before income taxes and extraordinary item	2,817	444	5,830
Income taxes	363	141	429
Income before extraordinary item	2,454	303	5,401
Extraordinary item		(528)	
Net income (loss)	$ 2,454	$ (225)	$ 5,401
Earnings (loss) per common and common equivalent share:			
Primary:			
Income (loss) before extraordinary item	$ .39	$ (.01)	$ 1.21
Extraordinary item		(.12)	
Net income (loss)	$ .39	$ (.13)	$ 1.21
Weighted average shares outstanding	5,406	4,260	4,260
Fully Diluted:			
Income (loss) before extraordinary item	$ .37	$ (.01)	$ 1.21
Extraordinary item		(.12)	
Net income (loss)	$ .37	$ (.13)	$ 1.21
Weighted average shares outstanding	5,649	4,260	4,260

See notes to consolidated financial statements.

SHOWBIZ PIZZA TIME, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 29, 1989,
DECEMBER 30, 1988 AND JANUARY 1, 1988

(Thousands, except per share data)

	Common Stock		Capital in excess of par value	Deficit	Treasury Stock	
	Shares	Par value			Shares	Cost
Balances, January 2, 1987	4,260	$426	$124,105	$(99,380)		
Net income				5,401		
Redeemable preferred stock accretion				(70)		
Redeemable preferred stock dividends, $3.60 per share				(178)		
Balances, January 1, 1988	4,260	426	124,105	(94,227)		
Net loss				(225)		
Redeemable preferred stock accretion				(103)		
Redeemable preferred stock dividends, $4.20 per share				(209)		
Litigation settlement			(1,000)			
Warrants issued			2,045			
Conversion of payable to Integra to equity			3,093			
Integra Distribution costs			(523)			
Treasury stock acquired					12	$(67)
Balances, December 30, 1988	4,260	426	127,720	(94,764)	12	(67)
Net income				2,454		
Redeemable preferred stock accretion				(103)		
Redeemable preferred stock dividends, $4.80 per share				(238)		
Stock grant plan	299	30	210			
Integra Distribution costs			(31)			
Treasury stock acquired						(1)
Balances, December 29, 1989	4,559	$456	$127,899	$(92,651)	12	$(68)

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 29, 1989,
DECEMBER 30, 1988 AND JANUARY 1, 1988

(Thousands)

	1989	1988	1987
Cash flows from operating activities:			
Net income (loss)	$ 2,454	$ (225)	$ 5,401
Adjustments to reconcile income (loss) to net cash from operating activities:			
Depreciation and amortization	11,327	9,712	8,718
(Gain) loss from property transactions	(69)	244	(118)
Other gains and losses	208	262	(272)
Provision for asset write-offs and loss on restaurant closings	4,548	483	(922)
Other	476	76	
Net change in receivables, inventory, prepaids, payables and accrued liabilities	582	1,910	1,074
	19,526	12,462	13,881
Cash inflows (outflows) from investing activities:			
Cash outflows for property and equipment	(15,730)	(8,274)	(19,978)
Cash inflows from disposition of property and equipment	633	6	2,115
Payments received on notes receivable	1,226	1,937	855
Additions to notes receivable		(785)	(580)
Change in deferred charges, investments and other assets	(832)	(1,755)	(2,646)
Other		79	
	(14,703)	(8,792)	(20,234)
Cash inflows (outflows) from financing activities:			
Proceeds from long-term debt, including proceeds from related parties of $5,000 and $10,663 in 1988 and 1987		16,545	10,663
Reduction of debt and capital lease obligations, including payments to related parties of $1,543, $17,300 and $2,341, respectively	(4,251)	(18,743)	(4,349)
Litigation settlement		(1,000)	
Redeemable preferred stock dividends	(238)	(209)	(178)
Integra Distribution costs	(31)	(523)	
Common stock issued under stock grant plan	240		
Other	184	195	112
	(4,096)	(3,735)	6,248
Increase (decrease) in cash and cash equivalents	727	(65)	(105)
Cash and cash equivalents, beginning of year	1,977	2,042	2,147
Cash and cash equivalents, end of year	$ 2,704	$ 1,977	$ 2,042
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest (net of amounts capitalized)	$ 4,364	$ 4,135	$ 4,010
Income taxes	339	91	280
Supplemental schedule of noncash investing and financing activities:			
Notes receivable cancelled in connection with the acquisition of property and equipment	$24,763		
Liabilities assumed or incurred in connection with the acquisition of property and equipment	372	$ 686	$ 3,789
Conversion of debt to equity		3,093	
Investment reclassified in connection with the acquisition of property and equipment	1,181		
Reduction of liabilities in connection with the disposition of property and equipment and other assets	495	352	

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 29, 1989,
DECEMBER 30, 1988 AND JANUARY 1, 1988

1. Summary of significant accounting policies:

Operations:

ShowBiz Pizza Time, Inc. (the "Company") operates and franchises family restaurant entertainment centers as ShowBiz and Chuck E. Cheese's restaurants, and through BHC Acquisition Corporation ("BAC"), its wholly owned subsidiary, also operates Monterey's Tex-Mex Cafe restaurants.

Basis of presentation:

The consolidated financial statements at December 29, 1989, include the accounts of the Company and BAC, previously a wholly owned subsidiary of Integra - A Hotel and Restaurant Company ("Integra"), acquired by the Company on July 30, 1988, in a transaction accounted for as if it were a pooling of interests. Accordingly, these financial statements include the operations of BAC from August 1, 1987, the date it acquired the Monterey's business. All significant intercompany accounts and transactions have been eliminated.

Fiscal year:

The Company's fiscal year is 52 or 53 weeks and ends on the Friday nearest December 31. References to 1989, 1988 and 1987 are for the fiscal years ended December 29, 1989, December 30, 1988 and January 1, 1988, respectively. These years were each 52 weeks in length.

Cash and cash equivalents:

Cash and cash equivalents of the Company are composed of demand deposits with banks and short-term cash investments with maturities of less than three months.

Inventories:

Inventories of food, paper products and supplies are stated at the lower of cost or market on a first-in, first-out basis.

Property and equipment, depreciation and amortization:

Property and equipment are stated at cost. Depreciation and amortization are provided by charges to operations over the estimated useful lives of the assets by the straight-line method.

Deferred charges and related amortization:

Deferred charges include noncompetition and consulting agreements which are amortized over six years. Loan costs are deferred and amortized over the term of the respective agreements. Franchise rights are amortized over the remaining life of the franchise agreements. Other deferred charges are amortized over various periods up to seven years. All amortization is provided by the straight-line method.

Franchise fees and royalties:

The Company recognizes initial franchise fees upon fulfillment of all significant obligations to the franchisee. Royalties from franchisees are accrued as earned.

Earnings (loss) per share:

Earnings (loss) per share are computed on the weighted average number of shares outstanding for each of the years in the three-year period ended December 29, 1989. All share and per share amounts have been adjusted to give effect to the one-for-ten reverse stock split effected on October 19, 1988.

Income taxes:

The Company has adopted the Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes," ("SFAS 96") issued by the Financial Accounting Standards Board in December 1987. The 1989 consolidated financial statements reflect this adoption and the Company has restated 1988 and 1987 to conform.

Reclassifications:

Certain reclassifications of 1988 and 1987 amounts have been made to conform to the 1989 presentation.

2. Accounts receivable:

	1989	1988
	(thousands)	
Trade	$ 279	$ 235
Other	2,155	2,092
	2,434	2,327
Less allowance for doubtful collection	(980)	(736)
	$ 1,454	$ 1,591

3. Property and equipment:

	1989	1988
	(thousands)	
Land and improvements	$ 3,660	$ 3,762
Leasehold improvements	52,822	28,444
Buildings and improvements	6,808	4,895
Furniture, fixtures and equipment	37,172	28,037
Property leased under capital leases (Note 7)	2,112	6,175
	102,574	71,313
Less accumulated depreciation and amortization	(35,832)	(27,031)
	66,742	44,282
Construction in progress	5,652	2,963
	$ 72,394	$ 47,245

On June 30, 1989, the Company exercised its option to purchase the real property interests and equipment relating to 53 restaurants that it formerly leased as a result of a sale/leaseback transaction in 1984. The consideration for such purchase was a cash payment of approximately $800,000 and the cancellation of notes from the lessors in the aggregate outstanding principal amount of approximately $24,400,000. As required under the Company's existing loan agreement with The First National Bank of Boston and the indenture for the Company's subordinated bonds due 1993, the Company granted security interests in the purchased real property interests and equipment to the bank and the indenture trustee.

Property and equipment owned with a net book value of $16,815,000 are pledged as collateral for bank loans in 1989.

4. Notes receivable:

The Company's notes receivable at December 29, 1989, arose principally as a result of the sale of restaurants. The notes have various terms, but most are payable in monthly installments of principal and interest through 1994, with interest rates ranging from 9% to 15%. Substantially all notes are collateralized by the related property and equipment. Balances of notes receivable are net of an allowance for doubtful collections of $360,000 and $402,000 in 1989 and 1988, respectively.

5. Deferred charges:

	1989	1988
	(thousands)	
Franchise rights	$ 5,000	$ 5,000
Consulting contracts	833	833
Loan costs	1,269	1,319
Information system development costs	1,419	1,413
Other	923	796
	9,444	9,361
Less accumulated amortization	(3,641)	(2,443)
	$ 5,803	$ 6,918

6. Accounts payable and accrued liabilities:

	1989	1988
	(thousands)	
Accounts payable	$ 4,363	$ 4,264
Taxes, other than income	2,250	2,545
Salaries and wages	4,306	3,629
Insurance	2,289	1,526
Other	2,017	3,181
	$15,225	$15,145

7. Leases:

The Company leases certain restaurants and related property and equipment under operating and capital leases. All leases require the Company to pay property taxes, insurance and maintenance of the leased assets. The leases generally have initial terms of seven to 30 years with renewal options.

Following is a summary of property leased under capital leases:

	1989	1988
	(thousands)	
Land and buildings	$ 1,098	$ 1,616
Equipment	1,014	4,559
	2,112	6,175
Less accumulated depreciation	(879)	(4,042)
	$ 1,233	$ 2,133

Scheduled annual maturities of the obligations for capital and operating leases as of December 29, 1989, are:

Years	Capital	Operating
	(thousands)	
1990	$ 543	$ 13,642
1991	304	13,539
1992	262	11,982
1993	275	10,567
1994	312	10,159
1995-2007 (aggregate payments)	1,331	47,862
Minimum future lease payments	3,027	$107,751
Less amounts representing interest	(1,601)	
Present value of minimum future lease payments	1,426	
Less current portion	(296)	
	$ 1,130	

Rent expense:

Certain of the Company's real estate leases, both capital and operating, require payment of contingent rent in the event defined revenues exceed specified levels.

The Company's rent expense is comprised of the following:

	1989	1988	1987
		(thousands)	
Minimum	$16,114	$17,091	$14,194
Contingent	162	232	141
	$16,276	$17,323	$14,335

8. Long-term debt:

	1989	1988
	(thousands)	
Term loan payable to Integra, at prime, due July 1993 (Note 19)	$14,331	$15,874
Floating rate subordinated bonds, at prime, due July 1993	6,313	6,313
Debentures, 8%, due July 1993	3,598	3,603
Obligations under capital leases (Note 7)	1,426	2,444
Mortgage notes, collateralized by real estate, 10.95% to 14.5%, payable in monthly installments to September 24, 1997	4,572	4,724
Equipment notes at 10.5% to 16.6%, payable in 1990	183	101
Term loan payable to The First National Bank of Boston, at prime plus 1%, due June 1993	7,937	9,537
	38,360	42,596
Less current portion	(3,159)	(2,855)
Less discount on term loan and subordinated bonds	(1,344)	(1,839)
	$33,857	$37,902

As of December 29, 1989, scheduled annual maturities of all long-term debt (exclusive of obligations under capital leases) are as follows (thousands):

Years	Amount
1990	$ 2,445
1991	3,306
1992	4,643
1993	24,338
1994	759
1995-1997 (aggregate payments)	99
	$ 35,590

In December 1988, the Company completed a subscription rights offering ("Rights Offering") in which the Company issued an aggregate principal amount of $6,313,333 in floating rate subordinated bonds due July 1993 (the "Bonds"). The Bonds pay interest at a floating rate equal to the lesser of the prime rate established by The First National Bank of Boston or 18%.

The Bonds and the Integra loan are subordinate to the term loan payable to The First National Bank of Boston (the "Bank Loan"). The Integra loan principal is payable at $250,000 per quarter.

The Bank Loan requires, beginning in 1990, prepayment with excess cash flows, as defined. The Bank Loan also limits capital expenditures and prohibits cash dividends on common stock. These features are expected to be amended in the revolving loan agreement with The First National Bank of Boston as discussed below. In addition to being collateralized, principally by assets of BAC, the Bank Loan is guaranteed by The Hallwood Group Incorporated ("Hallwood") (Note 19).

As a result of the discount attributable to the issuance of warrants in connection with the Bank Loan and Bonds, the effective rate of interest was 15.9% through December 30, 1988, and 14.8% thereafter, varying with prime which was 10.5% at December 29, 1989.

In March 1990, the Company prepaid $2 million on the Bank Loan. The Company and The First National Bank of Boston have entered into a preliminary agreement, which is anticipated to be consummated in April 1990, that amends and converts the secured term loan agreement to a secured $10 million revolving loan agreement. Preliminary terms of the revolving loan agreement provide interest at a rate equal to prime plus 1/2% for six months reducing to prime thereafter assuming compliance with certain financial covenants and a 3/8% commitment fee on any unused credit line. The maximum outstanding loan balance available under the revolving loan agreement declines to $7.5 million in 1991 and to $5.0 million in 1992 and expires in 1993. The Company is also required to comply with certain financial ratio tests and capital expenditure limitations during the term of the agreement.

The Company capitalized interest of approximately $21,000 in 1988 in connection with the construction of property and equipment. There was no interest capitalized in 1989 and 1987.

9. Commitments and contingencies:

The Company has guaranteed certain obligations related to restaurant building and equipment leases. The underlying assets are collateral for the leases and the makers or assignees of all of the obligations are required to perform thereunder before the Company is required to fulfill its guarantee. In the event of default by the maker or assignee, the Company, in almost all cases, may make payment under the guarantees in accordance with the original payment schedule and has the right to locate potential buyers or subtenants for the assets. As of December 29, 1989, such guarantees aggregated approximately $4,739,000.

10. Litigation:

The Company is involved in litigation arising in the normal course of its business. Based on information presently available, management believes there will be no material effects on the Company's financial position as a result of such litigation.

11. Redeemable preferred stock:

The Company's redeemable preferred stock pays dividends at $4.80 per year, subject to a minimum cash flow test. As of December 29, 1989, one quarterly dividend, totaling $59,486 or $1.20 per share, was accrued but not yet paid. The Company's restated articles of incorporation provide for the redemption of such shares at $60 per share, in 2005.

12. Shareholders' equity:

Effective October 19, 1988, the Company amended its restated articles of incorporation to effect a one-for-ten reverse split of the common stock and to establish the number of authorized shares of common stock at 10,000,000. Accordingly, all share and per share data of the Company have been adjusted to reflect the reverse split.

The Company has warrants outstanding to purchase 1,278,000 shares of the Company's common stock at $4.00 per share. These warrants are exercisable from May 2, 1993 through July 30, 1993, but may become exercisable at an earlier date upon the occurrence of certain events, including the acquisition of 20% or more of the Company's common stock by any person without approval of the Company's Board of Directors.

In 1988, Integra settled two related lawsuits. The Company assumed and paid to Integra $1,000,000 of the total settlement costs of $2,161,000. Since the lawsuits were generated as a result of the issuance of warrants to purchase the common stock of Integra, such payment resulted in a reduction in capital in excess of par value of the Company.

13. Earnings (loss) per common share:

Earnings (loss) per common and common equivalent share were computed based on the weighted average number of common and common equivalent shares outstanding during the period. Net income (loss) available per common share has been adjusted for the items indicated below, and earnings (loss) per common and common equivalent share (adjusted for a reverse stock split effected October 1988) was computed as follows (thousands, except per share data):

	1989	1988	1987
Net income (loss)	$ 2,454	$ (225)	$ 5,401
Accretion of redeemable preferred stock	(103)	(103)	(70)
Redeemable preferred stock dividends	(238)	(209)	(178)
Adjusted income (loss) applicable to common shares	$ 2,113	$ (537)	$ 5,153
Primary:			
Weighted average number of common shares outstanding	4,389	4,260	4,260
Common stock equivalents:			
Stock purchase warrants	778		
Other	239		
Weighted average number of shares outstanding	5,406	4,260	4,260
Earnings (loss) per common and common equivalent share	$ .39	$ (.13)	$ 1.21
Fully Diluted:			
Weighted average number of common shares outstanding	4,389	4,260	4,260
Common stock equivalents:			
Stock purchase warrants	968		
Other	292		
Weighted average number of shares outstanding	5,649	4,260	4,260
Earnings (loss) per common and common equivalent share	$ .37	$ (.13)	$ 1.21

14. Franchise fees and royalties:

At March 16, 1990, 59 ShowBiz restaurants and 67 Chuck E. Cheese's restaurants were operated by a total of 60 different franchisees. The ShowBiz and Chuck E. Cheese's standard franchise agreements grant to the franchisee the right to develop and operate a restaurant and use the associated trade names, trademarks, and service marks within the standards and guidelines established by the Company.

Initial franchise fees were $75,000, $83,000 and $56,000 in 1989, 1988 and 1987, respectively.

15. Cost of sales:

	1989	1988	1987
		(thousands)	
Food and beverage	$ 34,086	$ 31,807	$ 24,178
Games and merchandise	6,809	5,490	5,595
Labor	44,433	41,981	33,837
	$ 85,328	$ 79,278	$ 63,610

16. Income taxes:

In 1989, the Company retroactively applied SFAS 96 which requires establishment of deferred tax liabilities and assets, as appropriate, for all temporary differences caused when the tax basis of an asset or liability differs from that reported in the financial statement. Application of SFAS 96 did not result in the establishment of a deferred tax liability or asset due to the availability of net operating loss carryforwards from prior years. The retroactive restatement resulted in an increase in income before extraordinary items of $166,000 in 1988 and $2,144,000 in 1987. There was no change to net income.

As of December 29, 1989, the Company has net operating loss carryforwards of approximately $41,500,000 for financial statement purposes and $35,800,000 for federal income tax purposes, which expire through 2002. The Company believes that in addition to the loss carryforwards attributable to prior losses of the Company, carryforwards of up to $91,500,000 attributable to the Company's acquisition of Pizza Time Theatre, Inc. will be available for use against future earnings. There can be no assurance, however, that these carryforwards will be available to such extent.

As of December 29, 1989, the Company has investment tax credit and jobs tax credit carryforwards totaling

$5,250,000 and $416,000, respectively, which have expiration dates through 2000 and 2002, respectively. Approximately, $2,950,000 of the investment tax credit carryforwards resulted from the Company's acquisition of Pizza Time Theatre, Inc. in May 1985.

Current tax laws and regulations relating to substantial changes in control may limit the availability of the Company's utilization of net operating loss and tax credit carryforwards. As of March 16, 1990, no limitation of such carryforwards has occurred.

A reconciliation of the statutory rate to the actual income taxes provided is as follows:

	1989	1988	1987
	(thousands)		
Computed tax at the statutory rate (1)	$ 958	$ 151	$2,293
Net operating loss carryforwards	(778)	(166)	(2,144)
State income taxes	183	156	280
Income taxes provided	$ 363	$ 141	$ 429

(1) 34% in 1989 and 1988, 40% in 1987.

17. Significant transaction:

In September 1989, the Company recorded a reserve of $4,532,000 for the closing of 25 Monterey House restaurants. The Company has assets held for resale of approximately $1.3 million recorded as other assets associated with these closings.

18. Extraordinary item:

The 1988 extraordinary item of $528,000 resulted from the settlement of litigation brought in 1986 against Integra and the Company.

19. Related party transactions:

On December 30, 1988, Integra distributed substantially all of its shares of the Company's common stock to holders of record of Integra's common stock as of December 9, 1988 ("Integra Distribution"). The holders of Integra's common stock received an aggregate of 3,822,230 shares at the ratio of 0.429 shares of the Company's common stock for each share of Integra common stock so held. In addition, the Company purchased from Integra at $5.60 per share, all of the shares of common stock (7,478 shares) held by Integra that were not distributed by it in the Integra Distribution.

Although the Company now operates independently of Integra, a majority of directors of the Company also constitute a majority of the directors of Integra. Integra has guaranteed a portion of the Company's outstanding debt and lease obligations.

On July 30, 1988, Integra converted $3,093,000 of intercompany debt due from the Company to equity. In addition, the Company converted its remaining indebtedness to Integra into new promissory notes in the aggregate principal amount of $15.9 million in replacement for a prior intercompany line of credit note (under which the principal balance was repayable through retention of the Company's net cash flow). The unpaid principal bears interest at an annual rate equal to the announced prime rate of The First National Bank of Boston.

The Company and Integra are parties to various agreements relating to the separate operations of the two companies. These agreements provide for the sharing of certain ongoing administrative costs and the Company's sublease of a portion of the home office building leased by Integra.

Integra has made charges to the Company as follows:

	1989	1988	1987
	(thousands)		
Interest	$1,608	$2,263	$2,646
Corporate administrative costs	1,535	4,875	5,565

Hallwood is the beneficial owner of 8.4% of the outstanding common stock of the Company. A majority of the directors of the Company serve as directors of Hallwood. Pursuant to an agreement, Hallwood provides certain financial and managerial services to the Company in consideration for a payment of $125,000 per annum. The Company paid Hallwood $125,000 in 1989 pursuant to the agreement.

In consideration for a $5 million loan from Hallwood, the guaranty of the Bank Loan by Hallwood, and Hallwood's assistance in obtaining the Bank Loan and in connection with the conversion of the remaining balance of the $5 million loan from Hallwood into Bonds, the Company issued to Hallwood, and its affiliated designee, warrants entitling the holder thereof to purchase an aggregate of 1,212,000 shares of the Company's common stock at an exercise price of $4.00 per share.

During 1988, the Company recognized a $400,000 receivable arising from the Company's claim to a refund of prior year contributions to Animated Entertainment Fund (AEF), a Texas non-profit corporation. The Company invests approximately $496,000 of cash in certain short-term investments for the AEF. Three officers of AEF are also officers of the Company.

The Company has an 18% interest as a limited partner in ShowBiz Pizza Place - Denver, Ltd. The Company also holds a note receivable of approximately $686,000 at an interest rate of 15% or prime plus 3%, if greater. The debt is collateralized by the property. The Company leases the restaurant building and equipment from ShowBiz Pizza Place - Denver, Ltd. Integra acts as general partner and income or losses are allocated 1% to Integra and 99% to the limited partners. Integra also receives a management fee of 5% of distributable cash flow and has guaranteed the repayment of the loan to the Company.

20. Employee benefit plans:

The Company has employee benefit plans that include a) executive bonus compensation plans based on the performance of the Company and certain of its senior officers; b) a non-statutory stock option plan; and c) a stock grant plan.

Under the stock option plan, the aggregate number of shares of the Company's common stock which may be issued under the plan may not exceed 276,900 shares and must be granted before October 18, 1993. The exercise price for options granted under the plan may not be less than the fair market value of the Company's common stock at date of grant. Options may not be exercised until the employee has been continuously employed at least one year after the date of grant. As of March 16, 1990, 274,700 options have been granted under the plan. None of the options were exercisable at December 29, 1989.

Under the terms of the stock grant plan, begun in 1989, a maximum of 325,000 shares of the Company's common stock may be awarded to senior executives of the Company. An aggregate of 298,926 shares in 1989 and an additional 5,500 in 1990 were awarded pursuant to the plan. All shares were awarded at market value on the date of grant and are subject to forfeiture upon termination of the participant's employment by the Company over vesting periods ranging from 2 years to 6 years. The shares are nontransferrable during the vesting periods.

The Company has adopted the ShowBiz 401(k) Retirement and Savings Plan, to which it may at its discretion make a contribution out of its current or accumulated earnings of up to the lesser of 50% of employee contributions or $750 per employee. Contributions by the Company may be made in the form of its common stock or in cash. The Company made no contributions during 1988 or 1989.

Board of Directors
ShowBiz Pizza Time, Inc.
Irving, Texas

We have audited the accompanying consolidated balance sheets of ShowBiz Pizza Time, Inc. and subsidiary as of December 29, 1989, and December 30, 1988, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years (52 weeks) in the period ended December 29, 1989. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 29, 1989, and December 30, 1988, and the results of its operations and its cash flows for each of the three years in the period ended December 29, 1989, in conformity with generally accepted accounting principles.

As discussed in Note 1, effective as of the beginning of the 1989 fiscal year, the Company changed its method of accounting for income taxes.

Deloitte & Touche

March 16, 1990
Dallas, Texas

OFFICERS AND DIRECTORS

Principal Officers

Richard M. Frank
Chairman & Chief Executive Officer

J. Terry Spaight
President & Chief Operating Officer

Richard T. Huston
Executive Vice President
Marketing and Development

Michael H. Magusiak
Executive Vice President,
Treasurer & Chief Financial Officer

Robert F. Ortegel
Executive Vice President
Franchise Development

Ronald F. Saupe
Executive Vice President,
General Counsel & Secretary

Gene F. Cramm
Senior Vice President
Purchasing and Entertainment

Matthew P. Drennan
Vice President
Training and Management Development

Martin J. Giardina
Vice President
Franchise Operations

Curt Glowacki
Vice President
Monterey's Operations

Ronald L. Hake
Regional Vice President
Operations

Daniel E. Jouppi
Regional Vice President
Operations

Dennis P. Murphy
Vice President
Controller

John E. Rose III
Vice President
Construction

Alice M. Winters
Vice President
Real Estate

Board of Directors

Richard M. Frank
Chairman & Chief Executive Officer

Anthony J. Gumbiner
Chairman & Chief Executive Officer - The Hallwood Group Incorporated

Brian M. Troup
President & Chief Operating Officer - The Hallwood Group Incorporated

Michael H. Magusiak
Executive Vice President,
Treasurer & Chief Financial Officer

Charles A. Crocco, Jr.
Partner - Lunney & Crocco

Robert L. Lynch
Vice Chairman - The Hallwood Group Incorporated

J. Thomas Talbot
President & Chief Operating Officer - Hawaiian Airlines

CORPORATE INFORMATION

Executive Offices

4441 West Airport Freeway
P.O. Box 152077
Irving, Texas 75015
214/258-8507

Annual Meeting Of Stockholders

Tuesday, May 22, 1990
Conference Theatre I
Holiday Inn Hotel
4440 West Airport Freeway
Irving, Texas 75062

Independent Auditors

Deloitte & Touche
2001 Bryan Tower
Dallas, Texas 75201

Stock Transfer Agent & Registrar

First Chicago Trust Company of New York
30 West Broadway
New York, New York 10007
800/446-2617

Stock Listing

The company's common stock is traded on the NASDAQ National Market System under the symbol "SHBZ".

10-K Availability

The Company will furnish to any stockholder, without charge, a copy of the Company's annual report filed with the Securities and Exchange Commission on Form 10-K for the 1989 fiscal year (including the financial statements and schedules thereto) upon written request from the stockholder addressed to:

Secretary
ShowBiz Pizza Time, Inc.
4441 West Airport Freeway
P.O. Box 152077
Irving, Texas 75015

ShowBiz Pizza Time, Inc.
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SHOWBIZ PIZZA TIME INC.
1989 ANNUAL REPORT

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